

# LYNCHBURG CITY COUNCIL

## Agenda Item Summary

MEETING DATE: **May 25, 2004, Work Session**

AGENDA ITEM NO.: 1

CONSENT:

REGULAR: **X**

CLOSED SESSION:

(Confidential)

ACTION:

INFORMATION: **X**

ITEM TITLE: **Discussion with the School Board Regarding Annual Prepayments**

RECOMMENDATION: None

SUMMARY: As requested by Council, the School Board has been invited to attend your work session to discuss the history of annual prepayments to the Laurel Program and other activities. Attached for your information is a copy of the letter that I sent to the School Superintendent at Council's request and his response that provides a history of the prepayments and the Schools fund balance.

PRIOR ACTION(S): 1993 Agreement regarding funds appropriated to Schools but unspent in the fiscal year.

FISCAL IMPACT: No impact to the annual budget unless funds are utilized to reduce debt on school projects.

CONTACT(S): Kimball Payne

ATTACHMENT(S): Letters

REVIEWED BY: lkp



OFFICE OF THE  
CITY MANAGER

May 4, 2004

Dr. James T. McCormick  
Superintendent of Schools  
Lynchburg Public Schools  
P. O. Box 1599  
Lynchburg, VA 24505

Dear Jim:

After the budget work session discussion of April 27<sup>th</sup> regarding the annual prepayment by the Lynchburg City Schools to the Laurel Regional Program, City Council directed that I prepare this letter on its behalf. Please share it with the School Board.

City Council asked that I express its concern regarding the practice of making an annual prepayment to the Laurel Program and requested that a meeting be scheduled for either representatives of or the full School Board and City Council to discuss this issue. It is clear to me that City Council understands the intent of the 1993 agreement (copy attached), whereby funds appropriated for school operations but unspent in the previous fiscal year are returned to the School Board, and has no intent to change that arrangement. Council is concerned, however, that the annual Laurel Program prepayment is counter to the spirit of that agreement.

In anticipation of the meeting requested by Council, I offer the following thoughts to help structure the conversation.

First of all, I think that it would be helpful if City Council and the School Board were provided a history of the amount of the annual prepayments to the Laurel Program or other programs since 1993. Also, an annual history of the School Operating Fund Balance, detailing additions and uses since 1993 would be beneficial.

As you know, I, personally, have had some concerns with the 1993 agreement as I don't believe that there is authority under the State Code for the School Board to maintain a fund balance and appropriate monies from it. I base this belief on my understanding that there is no specific language in the State Code allowing such practices and on Section 22.1-100 of the State Code which states, in part, "All funds derived from local funds unexpended in any year shall remain a part of the funds of the governing body appropriating the funds for use the next year,..."



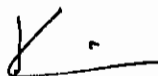
Knowing City Council's intent to honor the spirit of the 1993 agreement I would expect a goal of its conversation with the School Board to be to find a way to accomplish the same end in a manner allowed by the State Code.

I believe that City Council also understands the desire for some flexibility to make end of year adjustments in the school budget within the constraints of an annual appropriation. Perhaps the concern (my assumption) that the School Board not overspend its annual appropriation could be addressed by the establishment of a contingency in the School Budget rather than relying on the Laurel Program prepayment to buffer unanticipated expenditures. An alternative would be for the School Board to seek a budget amendment and supplemental appropriation in the third quarter of each year.

As you can see, there are a number of inter-related issues that revolve around the Laurel Program prepayment. My hope is that they can all be resolved together so that City Council, the School Board and their respective staffs can continue to work together with common understanding and expectations.

Please let me know if you would like to discuss any of this prior to the requested meeting. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to be 'L. Kimball Payne, III', with a horizontal line extending to the right.

L. Kimball Payne, III  
City Manager

cc: City Council  
Walter Erwin  
Mike Hill

LETTER OF AGREEMENT  
BETWEEN LYNCHBURG CITY COUNCIL  
AND LYNCHBURG BOARD OF SCHOOL TRUSTEES

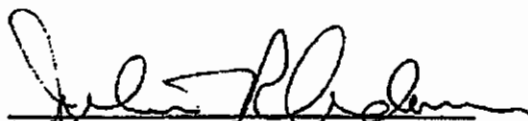
In accordance with the attached, duly-adopted Resolution, the Lynchburg City Council and the Lynchburg Board of School Trustees hereby agree that the creation and maintenance of a School Operating Fund Balance is desirable to the long-range financial interests of both entities and, even more importantly, to the citizens and the community which both bodies represent. Accordingly, the City Council supports such approach by indicating its willingness to reappropriate to such Fund Balance any duly-budgeted, non-debt service local funding which the Schools manage to avoid spending by the close of each fiscal year. Similarly, the School Board expresses its intention of continuing to exercise cautiousness in the expenditure of all budgeted, appropriated local funding to the Schools, and further understands that any such unexpended, non-debt service monies would become part of a Schools Operating Fund Balance.

The separate, above-mentioned Fund Balance would be maintained in the accounting records of the Lynchburg City Schools for the purpose of underwriting any occasional shortfalls from any of the various budgetary categories of direct State funding support as well as other applications, all based upon the required expenditure approval of the School Board. For informational purposes, the Lynchburg City School Board would advise City Council annually as to amount of funding in such School Operating Fund Balance as of July 1 of each fiscal year; and such information would be reflected in the overall financial information of the City of Lynchburg along with other customary fiscal data for the Lynchburg City Schools.

Based upon this understanding, the creation of the above-referenced Fund Balance would occur promptly and would include any unexpended, duly-budgeted, non-debt service local funding at the close of the current 1992-1993 fiscal year. It is understood that such practice would remain active in the years thereafter.

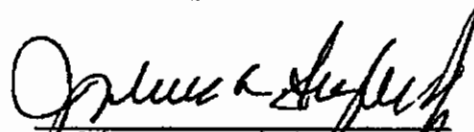
Lynchburg City Council

By:

  
Julian R. Adams  
Mayor

Lynchburg City School Board

By:

  
Julius A. Sigler, Jr.  
Chairman

Date:

12/14/93

Date:

December 20, 1993



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SCHOOL ADMINISTRATION BUILDING

915 Court Street  
Post Office Box 1599  
Lynchburg, Virginia 24505-1599

May 18, 2004

Mr. L. Kimball Payne, III  
City Manager  
900 Church Street  
Lynchburg, Virginia 24504

Dear Kim:

In response to the letter I received from you dated May 4, 2004, I offer the following information. When analyzing that information, you will note that prepayments of annual budgetary obligations date back to the 1991-92 school year while the joint agreement establishing the annual operating fund balance was signed on December 14, 1993.

The practice of prepaying specific budgetary obligations that the school division would incur in a succeeding school year was funded by the substantial financial savings resulting from the massive early retirement of school employees in June 1991. As we anticipated expenditures for 1991-92, the city council and the school board collectively decided that employees would not receive a salary increase in 1991-92. Therefore, the savings realized from that retirement was available to satisfy financial obligations and challenges facing the school division during the 1991-92 school year. Those obligations were costs associated with the local employee early retirement plan in place during the late 1980s and the negative cash flow incurred due to those expenditures. Additionally, the local appropriation directed toward the 1990-91 operating budget was reduced by \$350,000 in November 1990, and that reduction became a challenge for the 1991-92 operating budget as well. Thus, the savings realized as a result of the large-scale retirement of employees enabled the school division to satisfy specific financial demands.

Once the operating budget was stabilized, some savings carried forward prior to the signing of the joint agreement. The strategy of prepayments of anticipated obligations was in effect prior to that joint agreement and has remained in place since that time. Chart A summarizes those prepayments made to satisfy anticipated expenditures.

CHART A

**Lynchburg City School prepayment information**


year end	total prepayments	laurel	governor's school	to city	vendors
6/30/1993	\$ 726,976	\$ -	\$ -	\$ 129,483	\$ 597,493
6/30/1994	\$ 766,980	\$ -	\$ -	\$ 648,048	\$ 118,932
6/30/1995	\$ 693,344	\$ -	\$ -	\$ -	\$ 693,344
6/30/1996	\$ 538,777	\$ 375,195	\$ 90,157	\$ -	\$ 73,425
6/30/1997	\$ 519,823	\$ 333,844	\$ 90,400	\$ -	\$ 95,579
6/30/1998	\$ 573,336	\$ 474,336	\$ 99,000	\$ -	\$ -
6/30/1999	\$ 912,350	\$ 800,000	\$ 112,350	\$ -	\$ -
6/30/2000	\$ 524,503	\$ 414,283	\$ 110,220	\$ -	\$ -
6/30/2001	\$ 1,116,400	\$ 1,000,000	\$ 116,400	\$ -	\$ -
6/30/2002	\$ 1,112,000	\$ 1,000,000	\$ 112,000	\$ -	\$ -
6/30/2003	\$ 1,120,810	\$ 1,000,000	\$ 120,810	\$ -	\$ -

Chart B, which is enclosed with this communication, provides additional details for payments made from June 1993 through June 1997.

In addition to the information contained in Charts A and B, the information regarding the history of the school operating fund balance appears on Chart C, which is also enclosed with this communication. Each year since 1990, the school board has presented its request to city council for a local appropriation to support the school operating budget. However, there have not been requests at any time during that period for additional local appropriations to balance those budgets.

Members of the school board and I anticipate discussing this topic with members of city council and you on May 25, 2004, at 1:00 p.m. at City Hall. Please contact me if you have additional questions. Thank you.

Sincerely,

  
James T. McCormick  
Superintendent

JTM/wls

enclosure

cc: Members, Lynchburg City School Board

# CHART B

## Lynchburg City School Fund Balance History

column calculation	1	2	3 = 1 + 2	4	5	6 = 3 + 4 + 5	7	8 = 6 - 7	9	10 = 6 + 8 + 9
year ended	net operating revenue	lease purchase funds excess (expended)	net	debt savings	uses of fund balance	final	per audit (1)	difference from final to audit	other adjustments (2)	balance
6/30/1993	\$ -		\$ -			\$ -	\$ -	\$ -		\$ -
6/30/1994	\$ 21,954		\$ 21,954			\$ 21,954	\$ 21,954	\$ -		\$ 21,954
6/30/1995	\$ 4,769		\$ 4,769			\$ 4,769	\$ 4,769	\$ -		\$ 26,723
6/30/1996	\$ 106,038		\$ 106,038			\$ 106,038	\$ 106,038	\$ -	\$ 47,309	\$ 180,070
6/30/1997	\$ 327,257		\$ 327,257			\$ 327,257	\$ 327,257	\$ -	\$ 21,160	\$ 528,487
6/30/1998	\$ 259,709		\$ 259,709			\$ 259,709	\$ 259,709	\$ -	\$ 162,876	\$ 951,072
6/30/1999	\$ 392,323		\$ 392,323			\$ 392,323	\$ 392,323	\$ -		\$ 1,343,395
6/30/2000	\$ 80,942	\$ 242,555	\$ 323,497		\$ (596,741)	\$ (273,244)	\$ (273,244)	\$ -		\$ 1,070,151
6/30/2001	\$ 389,053	\$ (45,173)	\$ 343,880		\$ -	\$ 343,880	\$ 343,880	\$ -	\$ (71,320)	\$ 1,342,711
6/30/2002	\$ 690,750	\$ 409,639	\$ 1,100,389	\$ (257,915)	\$ (772,290)	\$ 70,184	\$ 328,097	\$ (257,913)		\$ 1,412,895
6/30/2003	\$ 409,210	\$ 83,529	\$ 492,739		\$ (8,275)	\$ 484,464	\$ 484,464	\$ -		\$ 1,897,359

### notes:

1 - per audit - agrees to the schedule titled "School Operating Fund, Schedule of Revenues, Expenditures and Other Financing Sources (Uses), Budget and Actual Non-GAAP Budgetary Basis"

For the year ended June 30, 2002, debt services savings in the amount of \$257,913 were reported as net revenues, however in accordance with the 1993 agreement, these funds were not added to the fund balance.

2 - other adjustments in 1996, 1997 and 1998 were necessary to set up grant funds as separate from operating funds.

2001 adjustments were to correct a prior period entry for lease purchases and to set up a separate fund balance for health insurance funds invested in LGIP

### uses of funds

2000	467,660	school busses
	52,811	maintenance equipment (cargo vans and tractor)
	76,270	musical instruments for secondary schools
	<u>\$ 596,741</u>	
2002	390,119	8 school busses
	18,026	athletic field at Heritage High School
	52,520	acquisition and preparation of property adjacent to Dearington Elementary school
	311,625	window replacement at Perrymont Elementary
	<u>\$ 772,290</u>	
2003	4,275	balance on Perrymont project
	4,000	deposit on land (returned in FY 2004)
	<u>\$ 8,275</u>	

## CHART C

## YEAR-END PAYMENTS

DATE	VENDOR	SERVICE	AMOUNT	FUND BALANCE
<b>1992-1993 SY</b>				
June-93	BANC ONE LEASING CORPORATION	LEASE PAYMENT ON MODULAR CLASSROOMS	\$54,761.81	
June-93	SCOTT INSURANCE	GENERAL LIABILITY, AUTOMOBILE, ETC.	\$125,783.00	
June-93	LYNCHBURG CITY SCHOOLS	TRANSFER TO TEXTBOOK FUND	\$23,475.40	
June-93	CITY OF LYNCHBURG	INSURANCE REIMBURSEMENT TO CIP FUND	\$129,483.62	
June-93	SCHOOL SYSTEMS OF VIRGINIA	WORKER'S COMPENSATION PREMIUM	\$42,787.00	
June-93	SCOTT & STRINGFELLOW	LEASE PURCHASE / SCHOOL BUSES	\$137,467.35	
June-93	SONNY MERRYMAN, INC.	PURCHASE 2 BUSES	\$122,823.00	
June-93	IBM CORPORATION	PAYMENT ON COMPUTER EQUIPMENT.	\$90,395.10	
			<u>\$726,976.28</u>	
<b>1993-1994 SY</b>				
June-94	CITY OF LYNCHBURG	INSURANCE	\$648,048.56	
June-94	JOSTENS LEARNING (MACHUS)	COMPUTERS	\$56,428.00	
June-94	JOSTENS LEARNING (MACHUS)	COMPUTERS	\$62,503.00	
			<u>\$766,979.56</u>	<u>\$4,769.00</u>
<b>1994-1995 SY</b>				
June-95	TREASURER OF VIRGINIA - VRS	RETIREMENT PLAN	\$693,344.00	
			<u>\$693,344.00</u>	<u>\$21,954.00</u>
<b>1995-1996 SY</b>				
June-96	IBM CORPORATION (HARE)	PAYMENT ON COMPUTER EQUIPMENT	\$27,853.06	
June-96	SCHOOL SYSTEMS OF VIRGINIA	WORKER'S COMPENSATION PREMIUM	\$45,572.00	
June-96	TRANSFER OF FUNDS	LAUREL AND GOVERNOR'S SCHOOL TUITION	\$465,352.04	
			<u>\$538,777.10</u>	<u>\$106,038.00</u>
<b>1996-1997 SY</b>				
June-97	TRANSFER OF FUNDS	LAUREL AND GOVERNOR'S SCHOOL TUITION	\$424,244.00	
June-97	J. B. MOORE ELECTRICAL CONTRACTOR	FIBER OPTIC NETWORK	\$37,223.59	
June-97	IBM CORPORATION	PAYMENT ON COMPUTER EQUIPMENT	\$58,355.90	
			<u>\$519,823.49</u>	<u>\$526,170.00 EST.</u>